PHILLIPS PETROLEUM COMPANY
1971 ANNUAL REPORT

HIGHLIGHTS

FINANCIAL	1971	1970*
Total revenues	$2,412,300,000	$2,311,300,000
Income before extraordinary items	$ 132,300,000	$ 119,900,000
Per average share outstanding	$ 1.78	$ 1.62
Net income	$ 132,300,000	$ 111,200,000
Per average share outstanding	$ 1.78	$ 1.50
Average shares outstanding	74,445,000	74,050,000
Dividends paid	$ 96,800,000	$ 96,300,000
Per share	$ 1.30	$ 1.30
Capital expenditures	$ 225,000,000	$ 239,400,000
Total assets at year-end	$3,166,700,000	$3,071,500,000
OPERATING**		
Crude oil and natural gas liquids produced—net barrels daily	356,000	374,000
Crude oil refined—barrels daily	447,000	457,000
Petroleum products sold—barrels daily	724,000	747,000
Natural gas produced—net thousands of cubic feet daily	1,844,000	1,858,000

*Restated to reflect the adoption on January 1, 1971, retroactively, of equity accounting for investments in companies owned 20% to 50%, inclusive, and in joint-venture type companies.

**Includes operating results, in proportion to the Company's stock interests, of companies for which equity accounting is practiced. Daily average figures for 1970 include 26,000 net barrels of crude oil and natural gas liquids produced, 17,000 barrels of crude oil refined, and 15,000 barrels of petroleum products sold from interests in Libya and the Middle East which were disposed of in 1970.

CONTENTS

"Phillips," "the Company," "we," and "our" are used interchangeably in this report to refer to the business of Phillips Petroleum Company and its consolidated subsidiaries. Where reference is made to a particular company, it is wholly owned unless otherwise stated. The Company's consolidation policy is to include in financial statements the accounts of companies in which more than 50% interest is held. Where so indicated, operating data in this report also include the activities, in proportion to the Company's stock interests, of companies for which equity accounting is practiced.

In addition to the Phillips 66 shield, Phillips 66, Trop-Artic, Philblack, Cis-4, Solprene, Philprene, Marlex, Ryton, K-Resin, Quintess, Marvess, Stryton, Loktuft, and Sealking are registered trademarks for the Company's products named in this report.

ABOUT THE COVER

In Nigeria, crude oil production is being increased by development of previously discovered oil fields, and two oil discoveries were made there in 1971.

TO THE STOCKHOLDERS

Your Company's earnings for 1971 were $132,300,000, which is 10% higher than the $119,900,000 earned in 1970 before extraordinary items. Per share earnings on this basis were $1.78 in 1971 and $1.62 in 1970.

Total revenues in 1971 increased 4% over those of 1970 to $2,412,300,000.

New oil production in Nigeria, Iran, and the North Sea and increases in natural gas liquids output and natural gas revenue contributed to the earnings improvement. Domestic crude oil production declined. Petroleum products sales volume was virtually unchanged.

Earnings were adversely affected by substantial rises in costs for raw materials and labor. Our prices for petroleum products increased, but not sufficiently to cover these higher costs. Sales volumes of nearly all of our principal chemical products increased, but prices for most of these products were depressed by economic conditions.

Our most significant 1971 advance was development of previously discovered crude oil resources. Oil production began from the 37% interest Ekofisk Field in the North Sea, and construction was started on new facilities in the field to enable development of substantial additional production beginning in 1973. Crude oil production in Nigeria rose and should further increase in 1973 upon completion of a pipeline and further development. Development of a second field in Iranian waters increased oil production there. A significant oil discovery was made in Oklahoma, a 1970 gas-condensate discovery in Alabama was confirmed, and major gas development was carried on in West Texas.

A restructuring of top executive management responsibilities was made by your Board in October 1971 which placed much greater reliance on long-range planning and budgeting, put prime emphasis on increasing oil and gas reserves and broadening our involvement in other forms of energy, utilizes the experience and abilities of our senior executives, and gives greater responsibilities to younger management men with excellent background and talent. This restructuring insures the continuity of an able, well-balanced executive team to plan and direct the Company's activities. The resulting changes in positions are described on page 10.

The nation is moving closer to a shortage of dependable petroleum energy sources. Demands for oil and gas are rising, while domestic exploration and the ratios of proved reserves to demands continue to decline. More and more reliance is being placed on imported supplies. Primary causes of the energy gap are the lack of a unified national energy policy and the vesting of administrative authority over various energy sources in several government agencies with overlapping responsibilities. This has resulted in laws and governmental actions which have discouraged investment of capital in energy-mineral exploration in the United States. Our national government must give foremost priority to establishing a unified energy policy that will enable fulfillment of growing petroleum needs without overdependence on insecure foreign sources.

The natural gas shortage is a result of federally regulated prices which are so low they have not attracted capital for exploration. Plans are under way to import liquefied natural gas and to manufacture synthetic gas from imported oil and naphtha at costs several times the regulated prices of natural gas produced in this country. If natural gas prices were permitted to seek competitive levels, exploration would be stimulated so as to minimize the need for such higher priced substitutes. Establishment of competitive pricing for natural gas so that all fuels are priced in relation to their useable energy content must be a cornerstone of national energy policy. The national security aspect of natural gas and its environmental advantages must also be taken into account.

Government, industry, labor, and other segments of our society must work together in solving other social and economic problems. Revisions or exemptions should be made to antitrust laws to enable companies to accelerate the solution of pressing environmental problems through more effective collaboration in research and other actions. Revisions of antitrust laws also are needed, along with cooperation between government, business, and labor, to strengthen the ability of American industry to compete in international trade with government-supported companies of other countries. Such affirmative actions are essential to improvement of our nation's balance of trade, which has been deteriorating.

We sincerely appreciate the support of customers, stockholders, employees, jobbers, and dealers which was extended during 1971. We will strive to merit their loyalty and confidence in 1972.

For the Board of Directors,

W. W. Keeler

Chairman and
Chief Executive Officer

John M. Houchin

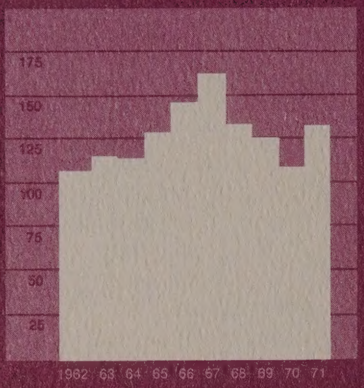
Deputy Chairman and
Deputy Chief Executive Officer

W. F. Martin

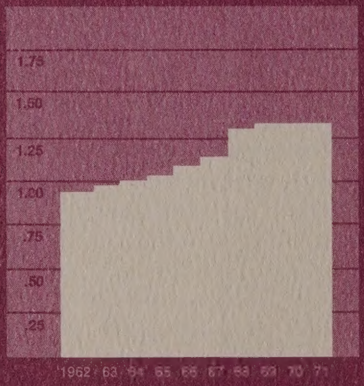
President

March 21, 1972

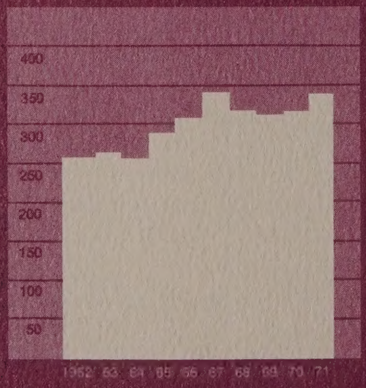
NET INCOME †
millions of dollars



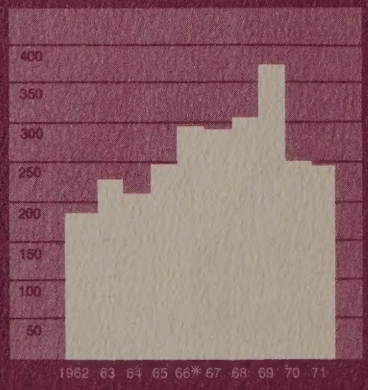
DIVIDENDS PER SHARE ‡
dollars



FUNDS FROM OPERATIONS †
millions of dollars



CAPITAL EXPENDITURES AND INVESTMENTS—millions of dollars



† Data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption of equity accounting for investments.
‡ Adjusted for two-for-one stock split in 1969.
* Excludes $308,600,000 for Western U.S. Manufacturing and Marketing properties.

financial review

The adoption in 1971 of equity accounting and restatement of 1970 earnings to reflect it added $8,500,000 to 1971 earnings and $2,800,000 to 1970 earnings before extraordinary items. Under this new policy, which was recommended by the Accounting Principles Board, earnings or losses, in proportion to the Company's stock interests, of companies owned 20% to 50% inclusive and of all joint-venture type companies are taken currently into consolidated net income. Extraordinary items in 1970, after adjusting for equity accounting, consisted of an $8,700,000 charge against earnings for estimated losses on foreign assets. There were no extraordinary items in 1971.

Total 1971 revenues of $2,412,300,000 consisted of gross operating revenues, $2,363,200,000, and other revenues, $49,100,000. Sources of gross operating revenues were as follows, stated in millions of dollars:

	1971	1970
Petroleum products..........	$1,188.2	$1,146.2
Chemicals, fibers, and fabricated products........	495.0	477.2
Crude oil....................	320.8	293.2
Natural gas (including helium)	169.3	165.2
Other sales and services......	189.9	191.3

Revenues from operations outside the United States were $420,600,000 or 17% of total revenues in 1971 compared with $309,800,000 or 13% of total revenues in 1970.

Capital expenditures were $225,000,000 distributed as follows: exploration and production 64%, manufacturing 26%, marketing 5%, transportation and other assets 5%. Capital expenditures in 1970 were $239,400,000.

Investments made in 1971 in securities of companies owned 50% or less totaled $23,200,000 compared with $11,000,000 in 1970.

Assets at year-end totaled $3,166,700,000, an increase of $95,200,000 during the year.

At December 31, 1971, the Company's long-term debt totaled $800,200,000, which was $112,300,000 more than a year earlier.

In March 1971, the Company sold $200,000,000 of 7⅝% Debentures Due 2001 by an underwritten public offering. Annual sinking fund payments of $8,000,000, commencing in 1981, will retire 80% of the issue prior to maturity. Approximately $182,000,000 of the proceeds from the sale were used to prepay bank loans which were incurred primarily to finance capital expenditures and working capital additions, and for payment of other debt maturities. The balance of the proceeds was used for general corporate purposes.

Throughout 1971 Phillips Petroleum Company Norway (a wholly owned subsidiary), in conjunction with Consortium Ekofisk, made arrangements to borrow funds to finance the development phases of the Ekofisk Field in the North Sea. Such arrangements included a Euro-Dollar loan of $75,000,000, a U. S. export credit of $40,500,000, an Italian lire export credit equivalent to approximately $4,400,000, a Norwegian kroner export credit equivalent to approximately $17,100,000, and a French franc export open line of credit. Repayments will commence in June 1973 and continue through 1981. At year-end the equivalent of approximately $75,000,000 was borrowed under these arrangements, of which Phillips Petroleum Company Norway's 36.96% share is $27,700,000.

Direct Federal, state, and other taxes for 1971 totaled $112,500,000. That was equivalent to 4.7 cents per dollar of total revenues, and to $1.51 a share compared with $1.30 a share paid in dividends to Phillips stockholders in 1971. An additional $269,000,000 in taxes was collected for city, state, and Federal governments on the sale of products, primarily gasoline.

Additional financial information, as well as 10-year operating data, is presented on pages 19-26.

operating review

EXPLORATION AND DEVELOPMENT

The Company's production potential for the near future was increased during 1971 by discoveries of oil, gas, and gas condensate in the United States and abroad, confirmation of another oil field in the North Sea, and development of oil fields in the North Sea, Nigeria, the Persian Gulf, and several areas of the United States.

PRINCIPAL DISCOVERIES, FIELD EXTENSIONS, AND DEVELOPMENT DRILLING

UNITED STATES

SOUTH CENTRAL OKLAHOMA—Significant oil reserves were discovered by Company-supported drilling on 20,000 net acres in Grady County, Oklahoma. By year-end 18 oil wells in which Phillips has interests had been completed.

WESTERN ALABAMA—A well completed in Washington County, Alabama, confirmed a 1970 gas-condensate discovery. It was tested from the Smackover formation at the rate of 1,776 barrels daily. A third well was being drilled on the 6,500 net acre block at year-end.

WEST TEXAS—On 5,200 net acres in Pecos County, four development wells added to reserves in the deep Gomez gas field.

At year-end Phillips had an interest in 18 wells in this field, and two more wells were being drilled. Open flow potentials of individual wells range up to 510,000,000 cubic feet of gas a day.

GULF OF MEXICO—Phillips and its partners have been using several drilling rigs to explore acreage acquired in the Gulf of Mexico at the December 1970 Federal lease sale. The partnership group also has participated in the drilling of numerous exploratory wells located on properties adjacent to those acquired by the group. Information obtained from the initial effort shows that accumulations of hydrocarbons are present on several of the structures in which we have ownership. Our exploratory program will be continued during 1972 to determine the extent of those accumulations and to evaluate blocks which are as yet untested.

OUTSIDE UNITED STATES

NORWEGIAN NORTH SEA—An information well was drilled by Phillips and partners on the flank of the Torfelt structure (formerly called Ergfisk), in which another company found an important oil field in 1970. The well flowed at the rate of 3,460 barrels of oil daily, confirming that a significant portion of the field structure lies within Phillips 37% interest acreage. At year-end we were drilling another well 1½ miles northeast on the top of the structure.

NIGERIA—In the Niger River Delta area, two oil discoveries were made and nine development wells were drilled on one-third interest acreage where several fields had been previously discovered.

IRAN—A 12-well marine oil field development program in the one-sixth interest Rakhsh Field in Iranian waters was nearing completion at year-end. The wells were connected to an existing pipeline. This field is 17½ miles northeast of the previously developed one-sixth interest Rostam Field.

Exploratory drilling was begun on 1,590,000 net acres in the foothills of the Zagros Mountains, where several large structures were located by surface geology and seismic work.

UNITED ARAB REPUBLIC—A natural gas discovery was made on the bank of the Nile on extensive 50% interest acreage. It was tested at the rate of 7,800,000 cubic feet of gas per day. It is 12 miles from an earlier gas-condensate discovery on the block.

Oil was discovered on the same acreage about four miles southwest of the Alamein oil field. At year-end this well and a development well were producing through a pipeline to Alamein facilities.

OTHER AREAS—Exploratory drilling was begun on 20% interest acreage 35 miles off the coast of Trinidad, and was being continued on large part-interest acreage blocks in Saudi Arabia and in Indonesian waters.

NET OIL AND GAS ACREAGE AT YEAR-END	
UNITED STATES	
Total	5,382,000
Developed	1,104,000
OUTSIDE UNITED STATES*	
Canada	6,507,000
Latin America	696,000
Europe	1,227,000
Africa	8,403,000
Middle East	13,852,000
Southeast Asia	38,852,000
Australia	6,272,000
Total, outside U. S.	75,809,000
Developed, outside U. S.	263,000

*Includes acreage of 49% owned Pacific Petroleums Ltd. in proportion to the Company's stock interest.

New acreage—Additions were made to United States acreage holdings in the Smackover Trend of Mississippi, Alabama, and the Panhandle of Florida; in Utah; West Texas; and the Anadarko Basin of Oklahoma.

Outside the United States we acquired 123,000 net acres in Colombia and 220,000 net acres in Canada. Total net acreage outside the United States declined, however, mainly because of relinquishments in Argentina, Indonesian waters, and Australia.

Expenditures—Capital and exploration expenditures to acquire, find, and develop oil and gas reserves were $149,000,000 compared with $146,600,000 in 1970.

	Exploratory		Development	
DRILLING STATISTICS	1971	1970	1971	1970
UNITED STATES				
Gross wells	39	35	262	252
Net wells	21	25	70	67
Oil	2	3	45	44
Gas and gas condensate	1	3	12	11
Dry holes	18	19	13	12
OUTSIDE UNITED STATES (net wells)*				
Canada	14	11	21	10
Latin America	2	4	11	—
Europe	1	3	—	—
Africa	5	9	6	2
Middle East	3	2	1	2
Southeast Asia	5	1	—	—
Total	30	30	39	14
Oil	2	2	29	9
Gas	4	4	8	4
Dry holes	24	24	2	1

*Includes drilling by 49% owned Pacific Petroleums Ltd. in proportion to the Company's stock interest.

PRODUCTION OF CRUDE OIL AND NATURAL GAS LIQUIDS

Average worldwide net production of liquid raw materials increased 2% to 356,200 barrels a day, after excluding for comparative purposes production from interests in the Kuwait-Saudi Arabia Neutral Zone and Libya, which were disposed of in 1970. The increase resulted mainly from new crude oil production in Nigeria, the North Sea, and Iran, and from a 3% rise in natural gas liquids production, chiefly in the U. S. Domestic crude oil production decreased 6%. Construction of a pipeline which would enable production of Alaskan North Slope oil was further delayed by failure of the Federal government to issue a permit because of environmental and other considerations, and there was insufficient new production in other U. S. areas to offset normal declines.

LIQUID RAW MATERIALS PRODUCED	Net Barrels Daily* 1971	1970
UNITED STATES		
Crude oil	130,100	138,900
Natural gas liquids	135,400	131,800
Total U. S.	265,500	270,700
OUTSIDE UNITED STATES		
Crude oil	75,100	87,900
Natural gas liquids	15,600	15,300
Total outside U. S.	90,700	103,200
WORLDWIDE		
Crude oil	205,200	226,800
Natural gas liquids	151,000	147,100
Total worldwide	356,200	373,900

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. The 1970 figures include net crude oil production of 25,900 barrels daily from interests in Libya and the Kuwait-Saudi Arabia Neutral Zone disposed of in 1970.

New Liquids Production—Crude oil production from the huge, 37% interest Ekofisk Field in the Norwegian sector of the North Sea began about mid-year. By year-end the initial production phase of this field was virtually completed. That phase involved four wells capable of producing a total of 40,000 barrels a day. The oil is produced directly into tankers which take it to European ports, but production is interrupted from time to time by severe weather.

The field will be developed and equipped for additional production to begin in 1973. Completion of a one million barrel storage tank by 1973 will minimize interruptions in production. The full field development program is being designed to yield approximately 300,000 barrels of oil a day by the third quarter of 1974. We plan to eventually tie three other 37% interest fields in the Ekofisk area into this system.

Oil from the North Sea is important to western European nations because they are now almost completely dependent on African and Middle East crude oil. Settlements in 1971 between the Organization of Petroleum Exporting Countries and certain oil companies resulted in increased crude oil prices and higher tax rates for their oil. This had the effect of increasing the value of North Sea oil. Our North Sea oil also has the advantages of desirable gravity and very low sulfur content.

Production from two fields on concessions in Nigeria, which began in the fourth quarter of 1970, had increased to an average of 12,100 net barrels a day by December 1971. Phillips had 50% interest in this production until October 1971, when the Nigerian Government exercised its option and acquired a one-third interest in the partnership operation. Nigerian production should increase markedly with drilling of additional development wells and completion of a pipeline system to the coast by early 1973.

Additional development of our second one-sixth interest oil field in the Persian Gulf increased 1971 daily average Iranian production net to Phillips by approximately 2,000 barrels a day. By year-end, substantial additional production was being realized.

By December, net oil production from discoveries made during the year in Grady County, Oklahoma, had increased to 4,000 barrels a day.

We constructed and began operating two natural gas processing and liquids extraction plants to serve the Anadarko Basin of western Oklahoma, bought a plant in New Mexico, and expanded a plant completed in 1970 in Wyoming. A new part-interest plant in Louisiana began operation. These developments will add approximately 6,000 net barrels a day to our natural gas liquids output.

Production Capacity Increased in Venezuela—Completion of a crude oil diluent project, pipeline modifications, and additional development wells substantially increased the production capacity of a 56% interest field in eastern Venezuela. An actual increase in production is awaiting markets for this oil. The diluent project involves mixing a lighter oil with the heavy oil from this field so it can be more easily transported and sold.

Steps to Increased Efficiency—Reductions in operating costs and increased natural gas liquids recovery were achieved by shutting down two plants in West Texas and diverting their gas supply to other plants.

Unitization and Induced Recovery—Of our total U. S. oil production, more than one fourth was induced by injection of water, natural gas, or steam into formations to produce oil which otherwise would remain in the ground. During 1971 Phillips participated in forming four new induced recovery units.

NATURAL GAS

Sales Revenues Increase—Our worldwide natural gas revenues rose 4% as a result of higher natural gas volumes from the British sector of the North Sea, increased sales of Alaskan liquefied natural gas, and improvements in U. S. gas sales prices.

REVENUES*	1971	1970
Gas revenues, U. S.	$129,600,000	$129,700,000
Gas revenues, outside U. S.	$ 48,200,000	$ 41,700,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more.

Factors Affecting Gas Deliveries—Gas handling capability of our new processing and natural gas liquids extraction plant in Wyoming was increased from 30,000,000 to 110,000,000 cubic feet of gas daily to provide for future production. By December, gas deliveries to an interstate pipeline company had reached 65,000,000 cubic feet a day.

Deliveries of approximately 12,000,000 cubic feet a day of natural gas began in July from a new gas processing and liquids extraction plant in the Anadarko Basin area of Oklahoma. This gas goes to an intrastate pipeline company. Another such plant completed in this area in December extracts liquids from 55,000,000 cubic feet of gas a day before delivery of the gas to an interstate pipeline company. Previously the gas was being delivered to that company after only minor processing.

Outside Exploration Support—Reflecting gas industry concern over future supplies, an interstate pipeline company advanced $10,000,000 to assist Phillips in exploration plans for our interest in nine leases acquired in waters off Louisiana in late 1970. Repayments on the advance are to be made solely out of a portion of the net proceeds from any oil and gas found and produced from the leases.

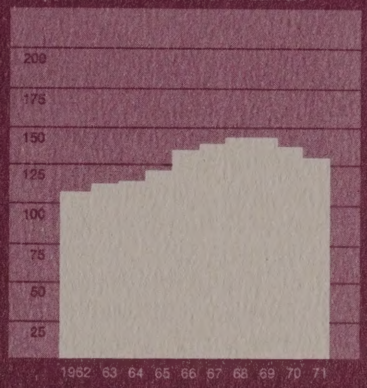
Response to Supply Shortage—The Federal Power Commission, major gas pipeline and distribution companies, and some consumer groups have shown greater awareness that a gas supply shortage exists in the United States. Many pipeline and distribution companies in 1971 turned down requests to take on new gas customers, and some restricted supplies to certain uses.

Responding to these developments, the Federal Power Commission granted higher field prices in some areas, especially for new gas, and took faster action on producers' requests for price increases. The Commission also provided methods for producers to retain some refund money for exploration activities and instituted regulatory control of gas end uses.

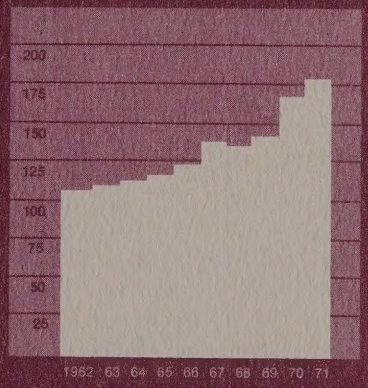
We re-negotiated several major gas sales agreements to provide higher prices and enable increased operating efficiency.

Helium Conservation Program—In January 1971, the U. S. Government attempted to terminate the helium purchase contracts, which implement the Helium Conservation Program. Helium is a scarce, irreplaceable element vital to many aspects of our nation's progress. Under the conservation program, helium which would otherwise be wasted is

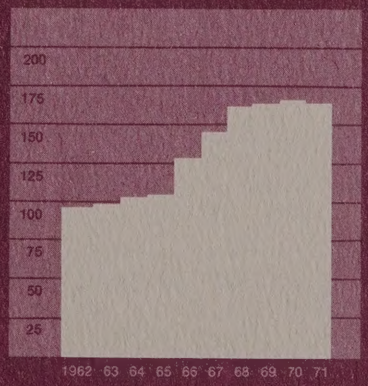
CRUDE OIL & NATURAL GAS LIQUIDS
net production—millions of barrels



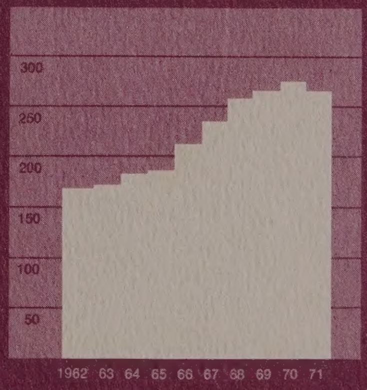
NATURAL GAS REVENUE
millions of dollars



CRUDE OIL REFINED
millions of barrels



PETROLEUM PRODUCTS SOLD
millions of barrels



Note—Data for 1967 through 1971 includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 includes the Company's interest in such companies owned one-third or more.

recovered from natural gas and sold to the government, which stores it underground for future needs. Phillips and two other companies selling helium under the program secured an injunction prohibiting termination of their contracts pending compliance by the government with the provisions of the National Environmental Policy Act. A decision of an appellate court upholding the injunction was not appealed by the government. Helium deliveries to the government continued without interruption throughout the year.

REFINING OF CRUDE OIL AND NATURAL GAS LIQUIDS

Total liquids throughput at our U. S. refineries increased to a new high. Liquids run to Company-interest refineries outside the United States were lower only because 1970 figures included 17,400 net barrels a day run by a Middle East refinery in which our interest was sold.

	Barrels Daily*	
REFINERY THROUGHPUTS	1971	1970
UNITED STATES		
Crude oil	371,000	364,000
Natural gas liquids	157,000	162,000
OUTSIDE UNITED STATES		
Crude oil and natural gas liquids	77,000	93,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more.

In addition to these refinery throughputs, average daily naphtha runs were 50,000 barrels into our Puerto Rico chemical complex, 36,600 barrels into 49% owned Petrochim's plant in Belgium, and 14,400 barrels into the plant near Oita, Japan, of 20% owned Tsurusaki Yuka K. K.

Environmental Improvement—A large two-stage waste water treatment facility was completed at the Sweeny, Texas, Refinery and Natural Gas Liquids Processing Center, as part of an environmental improvement program at this plant begun several years earlier. Five other major environmental control improvements also were completed at our U. S. refineries and two more were under construction at year-end. Numerous smaller improvements also were made during the year.

PETROLEUM PRODUCTS SALES

Total domestic petroleum products sales volume was down 5%. This decrease resulted partly from warmer weather in early 1971 and from our program to eliminate unprofitable sales outlets. Our worldwide petroleum products sales volume decreased 3% from 1970 to an average of 724,000 barrels daily, mainly because 1970 figures include 15,200 barrels a day of sales to our interest by a Middle East affiliate which was sold during that year.

	Barrels Daily*	
PETROLEUM PRODUCTS SOLD	1971	1970
UNITED STATES		
Automotive gasoline	311,000	314,000
Aviation fuels	27,000	35,000
Distillates	98,000	106,000
Liquefied petroleum gas	106,000	114,000
All other products	41,000	47,000
Total U. S.	583,000	616,000
OUTSIDE U. S.	141,000	131,000
WORLDWIDE	724,000	747,000

*Includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more.

Margins Lower—Our realized wholesale prices for refined products increased slightly over 1970. Manufacturing and marketing costs were higher and our margins were lower. Automotive gasoline price wars were frequent and widespread throughout 1971.

Cost Reductions Help Compensate—Several steps were taken to partially offset adverse pricing conditions and rising costs of materials and labor. A program was completed to consolidate in three regional offices certain administrative functions carried on in the 15 divisional marketing offices. A new marketing planning organization was established. Reflecting our program to eliminate unprofitable sales outlets, the number of domestic service stations decreased by nearly 800 to a total of 20,700 at year-end. Average sales volume per station remaining was higher.

Liquefied Petroleum Gas Sales Lower—Warmer-than-average weather in early 1971 lowered the Company's liquefied petroleum gas sales volume for the year, although our average price was higher than in 1970.

Lubricants—Total lubricant sales volume declined. Revenue from lubricants, however, was about the same as in 1970 because of price increases for most lubricants put into effect in March.

In May we introduced a new Racing Motor Oil designed for high-performance engines and for heavy duty motor service such as trailering. Both this oil and our Trop-Artic motor oils were improved to exceed 1972 new car warranty requirements.

SUPPLY AND TRANSPORTATION

Pipeline Expansions—Colonial Pipeline Company, owned 7.1% by Phillips, completed a major expansion of its Texas Gulf Coast to New Jersey petroleum products pipeline system. This expansion increased the capacity of the system to 1,500,000 barrels a day.

A six-inch diameter pipeline was completed with capacity to move 13,500 barrels a day of natural gas liquids from our new gas processing and liquids extraction plant in Wyoming to the Borger, Texas, processing center.

Tanker Operations—Philtankers, Inc. purchased two tankers of 20,000 dead-weight tons each. They haul feedstock from the United States to Philblack carbon black plants in Europe, South America, South Africa, and Australia, and return to the United States with fuel oil from Europe and Africa.

Tanker rate reductions just after mid-year made it economically advantageous to ship the Company's Iranian oil to the U. S. West Coast, and maximum quantities of this oil were delivered to our Avon Refinery in California. The lower tanker rates also helped offset higher prices for feedstocks used in the Company's overseas chemical plants.

CHEMICALS, FIBERS, AND FABRICATED PRODUCTS

Consolidated worldwide revenue from sales of chemicals, fibers, and fabricated products was $495,000,000 in 1971 compared with $477,200,000 in 1970. Profitability of these sales was lower, however, because of higher labor costs and depressed prices for most chemical intermediates and some other chemicals.

Depressing factors in the nation's economy resulted in excess industry capacities and slower growth patterns for most of our product lines, and together with higher wage rates put upward pressure on unit manufacturing costs.

Several new facilities and products were announced or commercialized in 1971, providing a broader profit base for future operations.

Percentage contributions to revenue by product groups were:

	1971	1970
Plastic feedstocks and resins	16%	18%
Rubber chemicals	17%	15%
Fertilizers	18%	15%
Fabricated products	18%	20%
Synthetic fibers	14%	12%
Other products	17%	20%

CHEMICALS . . .

Plastic Feedstocks and Resins—Ethylene sales volume decreased. Sales volume of plastic resins increased 27%. This rise and stringent cost control measures, however, could not fully offset declines in prices.

Construction began on plants near Borger, Texas, to make two new groups of Phillips-developed plastic resins. Our market development work shows strong, profitable demand exists for these products. One is a family of polyphenylene sulfide resins. These resins, trademarked Ryton, combine high resistance to heat and chemicals with stability and other properties for a broad range of engineered applications, such as molded parts resistant to chemicals and tough coatings for metals. The other material, a butadiene-styrene polymer trademarked K-Resin, combines toughness with exceptional clarity for a variety of packaging uses.

Rubber Chemicals—Carbon black sales volume increased and our average sales price rose slightly.

There was a good rise in synthetic rubber sales volume, spurred by continued growth in demand for our Solprene solution polymers, but rubber prices were down slightly. Modification of the Philprene rubber plant near Borger increased its black masterbatch production capacity 50%. Sales volumes of butadiene were up substantially, but prices were lower.

Fertilizers—Worldwide fertilizer sales volume increased because of the output from 60% owned Ultrafertil's new Brazilian fertilizer manufacturing complex. Fertilizer sales volume in the United States decreased slightly, but average realized prices for anhydrous ammonia, ammonium nitrate, and urea-ammonium nitrate solutions improved. Ammonia prices were depressed in some locations, and we chose to forego some sales rather than meet those prices.

Fertilizer profitability, although improved over 1970, was adversely affected by higher freight rates for fertilizer shipments and by higher labor costs.

Excess industrywide fertilizer capacity in the U. S., which has resulted in depressed prices and thus lower return from fertilizer operations during the past several years, was reduced further as demands rose and no new capacity was added. It appears fertilizer demand will be in balance with supply by the mid-1970s.

We sold our 50% interest in Phosphate Chemicals, Inc., which produces phosphoric and sulfuric acids and nitrogen-phosphate plant foods at facilities on the Houston Ship Channel.

Other Chemicals—Total sales volume of the cycloparaffins and aromatics product group decreased 8%, and prices for these products were lower. The group includes cyclohexane, benzene, orthoxylene, paraxylene, toluene, and mixed xylenes.

Sulfur sales volume increased slightly, but prices continued to decline. Revenue from sales of special and high-purity chemicals decreased. These chemicals include hydrocarbon aerosol propellants, sulfur derivatives, solvents, and numerous other products.

Product Developments—Sales of new low-density Marlex polyethylene resins increased. Because they are particularly superior in toughness and resistance to cracking, they are finding applications in products such as engineered pipe, flexible corrugated tubing, and cable coatings.

We also introduced new Marlex polypropylene resins. We began commercial production of furan, which has wide uses in the plastics industry and also can be converted into a selective solvent for chemical separations. Several new sulfur-based chemicals were placed on the market.

Plant Expansion—Principal chemical plant capacities added during the year and new projects under construction at year-end are shown in the following table.

PRODUCT	LOCATION	PHILLIPS INTEREST	ADDITIONAL GROSS ANNUAL CAPACITY
	COMPLETED DURING 1971		
Polypropylene	Houston, Texas	100%	55,000,000 pounds
Butylene	Borger, Texas	100%	15,000,000 gallons
Synthetic rubber	Borger, Texas	100%	3,100 long tons
Synthetic rubber	Borger, Texas	25%	10,000 long tons
Aromatic solvents	Guayama, Puerto Rico*	100%	20,000,000 gallons
High-density polyethylene	Antwerp, Belgium	30%	49,600,000 pounds
Polyvinylchloride	Antwerp, Belgium	50%	11,000,000 pounds
Butadiene	Puertollano, Spain	42%	5,100,000 pounds
Carbon black	Bordeaux, France	50%	30,900,000 pounds
Carbon black	Ravenna, Italy	50%	22,100,000 pounds
Carbon black	Port Elizabeth, Republic of South Africa	50%	27,100,000 pounds
	UNDER CONSTRUCTION OR AUTHORIZED AT YEAR-END		
Low-density polyethylene	Houston, Texas	100%	46,000,000 pounds
Synthetic rubber	Borger, Texas	100%	2,200 long tons
Synthetic rubber	Santander, Spain	42%	19,700 long tons
Butadiene-styrene plastic	Borger, Texas*	100%	10,000,000 pounds
Polyphenylene sulfide plastic	Borger, Texas*	100%	5,700,000 pounds
Polystyrene	Feluy, Belgium*	45%	99,200,000 pounds
Carbon black	Candeias, Brazil	35%	39,600,000 pounds
Carbon black	Ravenna, Italy	50%	11,000,000 pounds
Carbon black	Santander, Spain	42%	6,600,000 pounds
Butadiene	Puertollano, Spain	42%	70,600,000 pounds
High-density polyethylene	Kawasaki, Japan	40%	11,000,000 pounds
Low-density polyethylene	Oita, Japan	40%	110,300,000 pounds

*New plants; others are expansions of existing plants.

FIBERS . . .

Sales of Phillips 66 nylon, Quintess polyester, Marvess olefin staple, and Loktuft carpet backing increased to new highs. Although we increased our capacity, requirements of fabric makers for Quintess polyester filament exceeded our capability to supply them because of strong demand for this product for knitted polyester garments. Further expansion of our capacity was under way at year-end.

Several new fiber products were introduced. Included were Marvess III olefin carpet filament; Stryton thick-and-thin filament nylon yarn which gives fabrics a new look; and Loktuft Duon, the only widely accepted synthetic replacement for jute as a secondary backing on tufted carpets.

Government actions late in the year leading to devaluation of the U. S. dollar and revaluation of foreign currencies, plus negotiated quotas for man-made yarn, fabric, and garments from Far East nations, should enable domestic textile companies to compete more effectively in U. S. markets.

Expansion—In October, Fibers International Corporation, 90% owned, began producing polyester textile filament at its facilities near Guayama, Puerto Rico. Expansion of both nylon and polyester textile filament capacity and new nylon carpet filament facilities at Guayama will be completed during 1972.

FABRICATED PRODUCTS . . .

Our fabricated plastic and paper products businesses had mixed results during the year. Vinyl film sales increased substantially, reflecting start of production from expanded facilities and increased acceptance of our line of products. Especially notable were greater sales of woodgrain printed vinyl laminating films and commercialization of special woodgrain vinyl with paper backing for high-speed covering of unfinished wooden moldings.

Operating results of our Sealright packaging subsidiary improved, mainly as a result of moves to reduce costs and increase efficiency. That company introduced a new Sealking milk carton which had been well received in the large milk packaging market.

Sales of plastic products of Phillips Products Co., Inc. were lower, mainly because of a labor strike at one of its plants. However, there was especially strong demand for polyethylene pipe for gas distribution systems, and we installed additional equipment at our plant in Pennsylvania to meet increased demand for that product.

Sales of H. P. Smith Paper Co., which makes films and paper coatings, rose slightly, but costs were higher.

RESEARCH AND DEVELOPMENT

Sources of New and Potential Earnings—Phillips research and development team continued to add achievements that created new and potential earnings sources.

These achievements included a new grade of polyphenylene sulfide plastic resin with resistance to very high temperatures, making it a candidate for uses in such industries as aerospace; a Solprene butadiene-styrene copolymer that has exceptional wear qualities for tire treads; a new compound for sealing joints of high-rise buildings; a unique electro-chemical fluorination process which provides many benefits in production of certain types of fluorocarbon chemicals with potential use in several areas, including solvents and dielectric fluids; a geochemical technique, involving simulation of the oil generating behavior of rock formations, which helps determine whether or not and under what conditions formations may yield petroleum in commercial quantities; additional laboratory computerization which has increased efficiency and effectiveness, including a 25% increase in work productivity in chromatography activities with no increase in manpower.

Developments to Meet Automobile Emission Standards—In 1971 the Federal Government established automobile emission standards authorized under the Clean Air Amendments Act of 1970. Those standards affect the composition of motor fuels, distillates, and lubricants. Plans of automobile manufacturers to meet the 1975-1976 model year emission standards with vehicles operable on unleaded gasoline, combined with probable Federal regulations on lead content, mean that major changes must be made in motor fuel processing, transportation, and marketing.

The Company's research and development organization made several achievements during 1971 that may contribute significantly to the manufacture of automobile fuels to best meet requirements of future low-emission vehicles. They included a new hydroisomerization process; an improved process for alkylating isobutane with olefins; a new catalyst for converting normal paraffins into branched chain paraffins; and a lower cost process for making di-isopropyl. All of these developments enable greater economic output of higher octane gasoline blending materials useful in production of unleaded and low-lead fuels.

Patents—For the fourth consecutive year, Phillips ranked first among oil companies in the number of U. S. patents issued during the year, with 421. At year-end Phillips owned 6,146 active United States patents, second in the petroleum industry. The Company was issued 380 patents in 31 countries outside the United States in 1971.

Licensing—Licensing income during 1971 increased, reaching the second highest level in the Company's history. New plants of six licensees began operating during the year. At year-end Phillips processes were licensed for use throughout the United States and in 26 other nations.

PEOPLE

EMPLOYEES . . . Significant cost reductions and operating improvements resulted from employee participation in the Suggestion Plan. Tangible savings increased to an all-time high as a result of 3,479 awardable ideas submitted by Company employees during 1971.

Your Company's employee safety record continues to be much better than the average for the petroleum industry, which itself has a safety record better than industry generally. Many large groups of employees worked the entire year without a disabling injury, and no fatalities occurred.

In January 1971, Phillips granted general wage increases to most employees not exempt from overtime payment laws. Improvements were made during the year in the Retirement Income, Group Life, and Medical Insurance Plans. Similar wage increases and plan improvements were made throughout the oil industry.

STOCKHOLDERS . . . There were 166,012 shareholders at year-end, a decrease of 6,967 during the year. Stockholders resided in every state and U. S. possession and in 56 other countries. The largest ownership block consisted of the interests of 13,800 employees in the Employee Thrift Plan. This Plan at year-end held 7% of total shares outstanding.

MANAGEMENT CHANGES . . . Mr. Lloyd G. Minter, General Attorney, was elected Vice President and General Counsel, a Director, and member of the Executive Committee effective June 1, 1971. He succeeded Mr. Wm. J. Zeman who reached normal retirement on that date after 29 years of Company service. Mr. Kenneth Heady became Associate General Counsel, the position previously designated as General Attorney. Mr. William I. Spencer, President of First National City Bank, New York City, was elected a Director on June 14. Effective August 1, 1971, Mr. Geo. F. L. Bishop was elected Vice President Manufacturing to succeed Mr. C. R. McCullough who elected to take early retirement on that date after 40 years of Company service.

Effective September 1, 1971, Mr. C. M. Kittrell was elected a Senior Vice President, a Director, and a member of the Executive Committee; Mr. John E. Harris, Jr., was elected Vice President Supply and Transportation, replacing Mr. Kittrell; and Mr. D. R. Hynes, General Purchasing Agent, was named Manager of the Purchasing Department, replacing Mr. Harris. Mr. L. H. Johnstone was elected Vice President Chemical, replacing Mr. T. L. Cubbage who elected early retirement after more than 43 years of service and also retired as a Director. Mr. J. W. Davison, Director of Rubber, Carbon Black, and Polyolefins in the Research and Development Department, was promoted to Vice Chairman of the Operating Committee, replacing Mr. Johnstone.

On October 11, Mr. John M. Houchin, President, was elected to the new position of Deputy Chairman of the Board of Directors and deputy chief executive officer. Mr. W. F. Martin, Executive Vice President, was elected President. Mr. W. C. Hewitt, Chairman of the Executive Committee, was elected to the new position of Executive Vice President and Chairman of the Planning and Budget Committee. Mr. Wm. C. Douce, who had been advanced from Senior Vice President to Executive Vice President effective September 1, 1971, was elected Executive Vice President and Chairman of the Executive Committee. Mr. W. A. Roberts, Senior Vice President, was elected Executive Vice President and assigned prime responsibility for guiding your Company's efforts to increase its oil and gas reserves and broaden its base into other energy fields. Mr. Douce and Mr. Roberts had been elected members of the Executive Committee at the Annual Meeting of Stockholders April 27, 1971. Mr. C. M. Kittrell, Senior Vice President, was assigned responsibility for Phillips international activities at the top management level.

On November 8, 1971, Mr. O. W. Armstrong, Secretary and Treasurer, was elected Vice President and Treasurer. Mr. W. R. Thomas, Manager of the Employee Relations Department, was elected Vice President Employee Relations. Mr. Harvey W. Thompson, Assistant Secretary, was elected Secretary.

SOCIAL RESPONSIBILITIES . . . Your Company and its employees meet the social responsibilities of today's world in many and varied ways. In response to many requests for information about the activities of Phillips and its people to help others, a new booklet, "The Human Potential," was prepared and is available to stockholders. Another booklet, "Conserve and Protect," previously offered to stockholders in a quarterly report, discusses many of the Company's environmental protection policies and programs. It is still available upon request. Stockholders are invited to obtain a copy of either or both of these books by writing to Mr. Harvey W. Thompson, Secretary, Phillips Petroleum Company, Bartlesville, Oklahoma 74004.

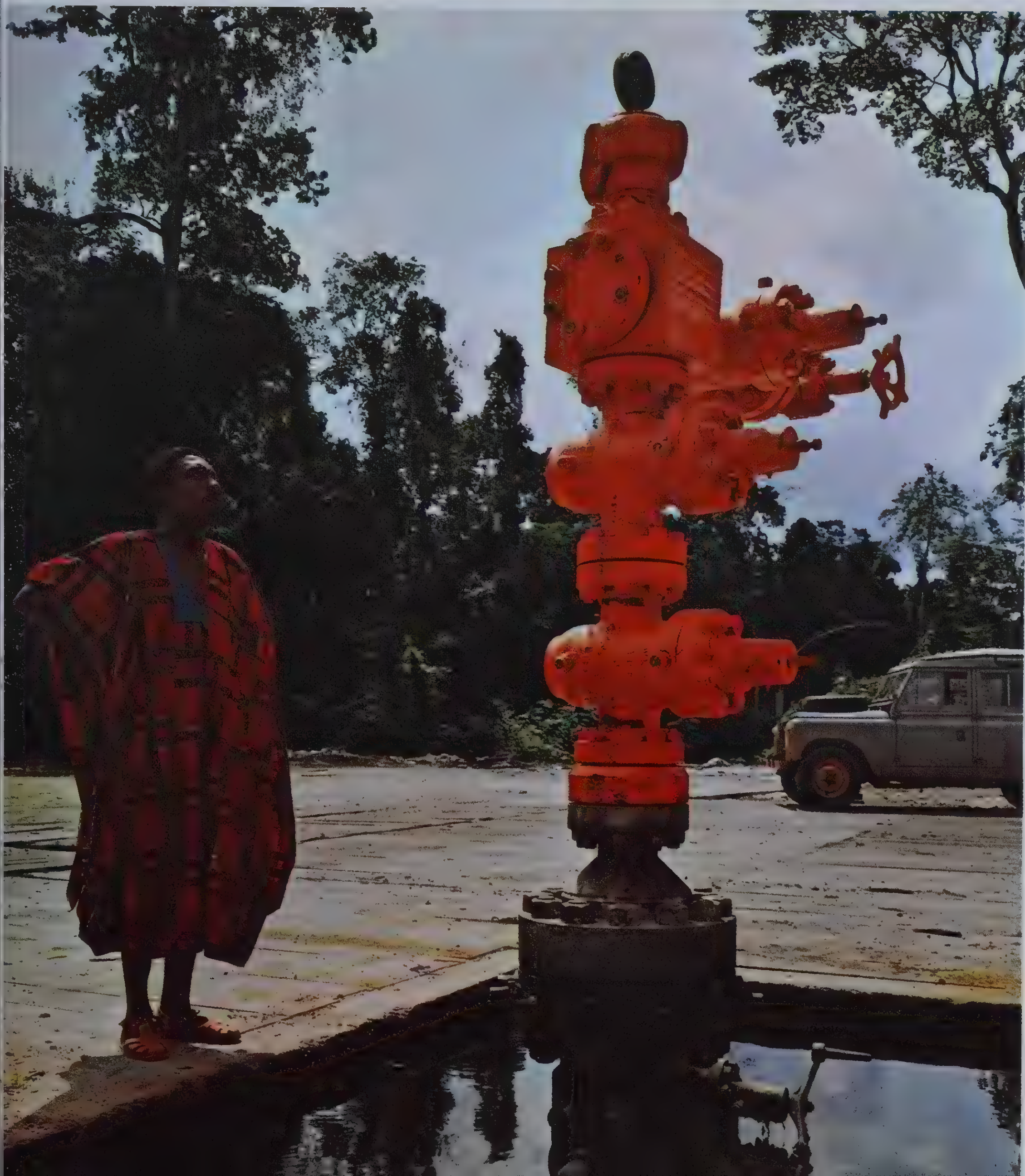
Deliveries of oil began from the initial producing facilities of 37% interest Ekofisk Field in North Sea.

Crude oil reserves were discovered and development commenced on extensive acreage in South Central Oklahoma.

Right, capacity of new natural gas liquids extraction plant in Wyoming was increased, and pipeline connection to Borger, Texas, processing center was completed.

Left, drilling in Gulf of Mexico showed accumulations of hydrocarbons on several structures underlying acreage acquired in 1970.

Right, three-platform oil production center was built in a second field in Iranian waters, where development drilling was nearly completed.

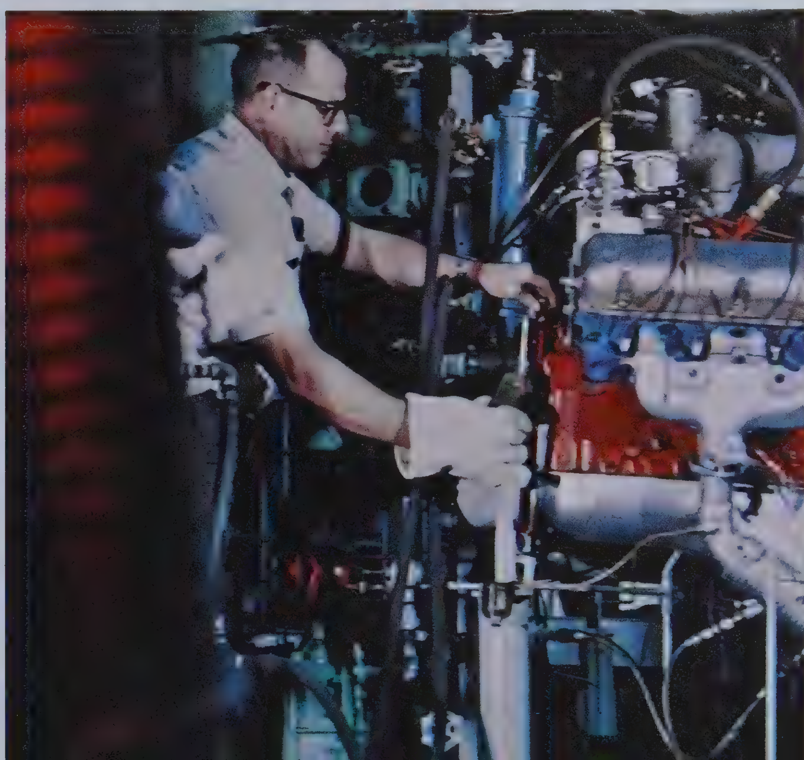


Oil production from Nigerian wells was increased to the available capacity of the pipeline being used. Continued development and future completion of new pipeline will add substantially to production.

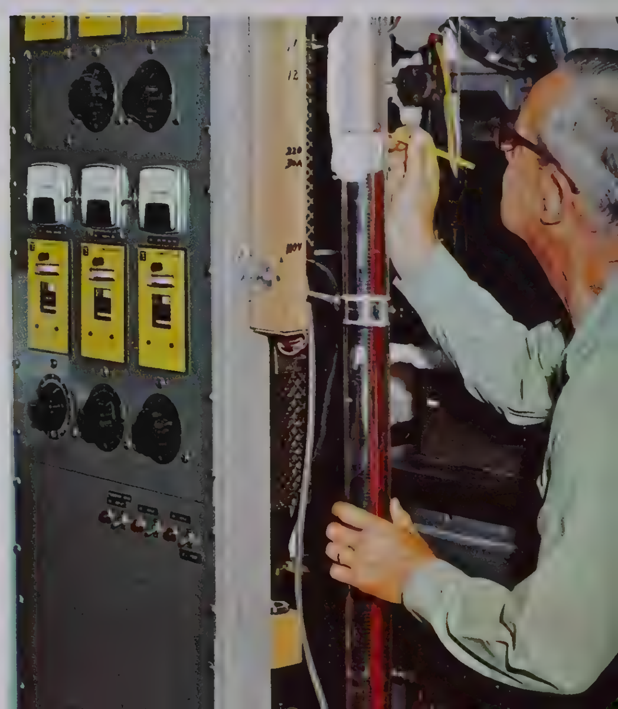
Above, Phillips liquefied petroleum gas, trademarked Philgas, is a versatile fuel. Here it is a source of heat and power for home and farm.

Left, with a Phillips 66 Credit Card, families enjoy the convenience of service stations where "It's Performance That Counts."

Right, new and improved motor oils were a product of Phillips lubrication research. Laboratory engine is testing improved Trop-Artic oil.



Right, research work on removal of organic material from waste water provides valuable information for use in pollution control system such as, below, a recently completed pond at Avon Refinery on San Francisco Bay where water is aerated to increase rate of bacterial action on waste material.



Completion of expansion increased the capacity of a high-density polyethylene plastics manufacturing plant of part-interest affiliate near Antwerp, Belgium.

Right, with continued rise in demands, carbon black plant of 50% interest affiliate near Bordeaux, France, underwent its fourth expansion.

Left, studies leading to production of low-lead or lead-free gasolines are a significant part of Phillips research on fuels for the future.

Requirements from customers for our Quintess polyester filament again exceeded plant capacity because of demands for this product for making easy care, fashionable, knitted garments.

Sturdy, lightweight Bakester trays made of Marlex high-density polyethylene, fast gaining acceptance in the baking industry, show one of the many growing uses of our tailored plastics in a number of industries.

PHILLIPS PETROLEUM COMPANY

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

ASSETS

	1971	1970*
Current Assets:		
Cash, including time deposits	$ 187,989,000	$ 132,317,000
Short-term investments, at cost	37,126,000	4,769,000
Notes and accounts receivable— (less reserves: 1971—$7,566,000; 1970—$6,010,000)	382,745,000	410,563,000
Inventories—Note 1:		
Crude oil, petroleum products, and merchandise	259,251,000	234,513,000
Materials and supplies	36,102,000	35,690,000
Total Current Assets	903,213,000	817,852,000
Investments and Long-Term Receivables— (less reserves: 1971—$8,771,000; 1970—$7,611,000)—Notes 1 and 2	391,735,000	361,620,000
Properties, Plants, and Equipment, at cost, less reserves—Note 3	1,838,037,000	1,850,524,000
Prepaid and Deferred Charges	33,714,000	41,484,000
	$3,166,699,000	$3,071,480,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	1971	1970*
Current Liabilities:		
Notes payable	$ 17,327,000	$ 32,416,000
Accounts payable	237,159,000	247,924,000
Long-term debt—due within one year	52,157,000	106,064,000
Accrued taxes	102,549,000	114,487,000
Other accruals	36,130,000	28,842,000
Total Current Liabilities	445,322,000	529,733,000
Long-Term Debt—Note 4	800,191,000	687,913,000
Deferred Credits:		
Income taxes—Note 5	62,996,000	57,246,000
Other	41,776,000	36,333,000
Total Deferred Credits	104,772,000	93,579,000
Reserve for Contingencies	60,672,000	57,433,000
Minority Interest in Consolidated Subsidiaries	6,557,000	9,938,000
Stockholders' Equity:		
Common stock, $2.50 par value—Note 6:		
Shares authorized—100,000,000		
Shares issued—(1971—76,192,076; 1970—76,126,545)	190,480,000	190,317,000
Capital in excess of par value of common stock—Note 6	437,248,000	433,312,000
Earnings employed in the business	1,160,881,000	1,125,350,000
	1,788,609,000	1,748,979,000
Less treasury stock, at cost— (1971—1,451,401 shares; 1970—2,064,552 shares)—Note 6	39,424,000	56,095,000
Total Stockholders' Equity	1,749,185,000	1,692,884,000
	$3,166,699,000	$3,071,480,000

*Restated. See Note 1.

CONSOLIDATED STATEMENTS OF INCOME AND EARNINGS EMPLOYED IN THE BUSINESS

	1971	1970*
Revenues:		
Gross operating revenues	$2,363,199,000	$2,273,100,000
Other revenues (including equity in earnings of non-consolidated companies)—Note 1	49,103,000	38,224,000
	2,412,302,000	2,311,324,000
Costs and Expenses:		
Cost of sales and services	1,615,338,000	1,541,184,000
Selling, general, and administrative expense	288,278,000	288,034,000
Depreciation, depletion, amortization, and retirements	201,268,000	198,446,000
Taxes other than income taxes**	59,675,000	57,613,000
Interest and expense on indebtedness	62,602,000	54,217,000
Provision for income taxes—Note 5	52,825,000	51,950,000
	2,279,986,000	2,191,444,000
Income Before Extraordinary Item	132,316,000	119,880,000
Provision for Estimated Losses on Foreign Assets (less applicable income tax credit of $4,000,000)	—	(8,700,000)
Net Income	132,316,000	111,180,000
Earnings Employed in the Business at Beginning of Year	1,125,350,000	1,110,434,000
	1,257,666,000	1,221,614,000
Dividends Paid ($1.30 a share)	96,785,000	96,264,000
Earnings Employed in the Business at End of Year	$1,160,881,000	$1,125,350,000
Per Share of Common Stock:		
Income before extraordinary item	$ 1.78	$ 1.62
Extraordinary item	—	(.12)
Net income	$ 1.78	$ 1.50

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS

		1971	1970*
SOURCE	Income before extraordinary item	$ 132,316,000	$ 119,880,000
	Depreciation, depletion, amortization, and retirements	201,268,000	198,446,000
	Deferred income taxes	5,750,000	(2,496,000)
	Other (including equity in undistributed earnings of non-consolidated companies)	(6,637,000)	762,000
	Funds from operations	332,697,000	316,592,000
	Long-term debt	256,950,000	10,002,000
	Property sales and retirements (including extraordinary item)	43,696,000	31,070,000
	Sales of investments	14,352,000	23,061,000
	Capital stock	20,770,000	535,000
	Other	6,510,000	2,811,000
		$ 674,975,000	$ 384,071,000
APPLICATION	Capital expenditures	$ 224,966,000	$ 239,369,000
	Investments and long-term receivables	37,694,000	15,560,000
	Reduction in long-term debt	144,672,000	109,502,000
	Cash dividends	96,785,000	96,264,000
	Increase (decrease) in working capital	169,772,000	(89,920,000)
	Other	1,086,000	13,296,000
		$ 674,975,000	$ 384,071,000
WORKING CAPITAL CHANGES	Cash	$ 55,672,000	$ (4,641,000)
	Short-term investments	32,357,000	(45,698,000)
	Notes and accounts receivable	(27,818,000)	18,267,000
	Inventories	25,150,000	(2,661,000)
	Total current assets	85,361,000	(34,733,000)
	Notes payable	(15,089,000)	11,017,000
	Accounts payable	(10,765,000)	18,252,000
	Long-term debt due within one year	(53,907,000)	30,183,000
	Accrued taxes and other accruals	(4,650,000)	(4,265,000)
	Total current liabilities	(84,411,000)	55,187,000
	Increase (decrease) in working capital	$ 169,772,000	$ (89,920,000)

*Restated. See Note 1.

**In addition, taxes of $269,000,000 in 1971 and $252,000,000 in 1970 were collected on the sale of petroleum products and paid to taxing agencies.

NOTES TO FINANCIAL STATEMENTS

NOTE 1—ACCOUNTING POLICIES

Principles of Consolidation—The consolidated statements include the accounts of companies owned more than 50%. Current assets and liabilities recorded in foreign currencies are translated into dollars at exchange rates in effect at year-end. All other foreign assets and liabilities, in general, are translated at exchange rates in effect when acquired or incurred. Exchange differences, which are not material, arising from these procedures are reflected in income.

Inventories—Crude oil and petroleum products are priced substantially at cost, which is lower than market in the aggregate, calculated mainly by the last-in, first-out method with crude oil on an annual basis and refined products, chemicals, and natural gasoline products on a monthly basis. Materials and supplies are priced at average cost or replacement cost, with allowance for condition of used material.

Investments—On January 1, 1971, the Company adopted the equity method of accounting retroactively for investments in companies owned 20% to 50%, inclusive, and in joint-venture type companies, as recommended by Accounting Principles Board Opinion No. 18. This change in accounting policy added $8,516,000 (11.4¢ a share) to 1971 net income. The 1970 financial statements have been restated to reflect this new policy and, accordingly, income before extraordinary item for that year has been increased $2,825,000 (3.8¢ a share), net income has been decreased $6,045,000 (8.2¢ a share), and earnings employed in the business at beginning of year has been increased $16,642,000 (after applicable income taxes of $3,465,000). The reduction in 1970 net income occurred because the $8,870,000 profit on sale of a security investment reflected as an extraordinary item is associated, under equity accounting, with the years in which the income was earned.

Investments in other companies are carried at cost.

Depreciation—Depreciation of properties, plants, and equipment subject thereto, is determined by the group straight-line method, individual unit straight-line method, and the unit of production method, applying the method considered most appropriate for each type of property.

Depletion—Leasehold costs of producing properties and the intangible development costs of productive wells are amortized on the unit of production method based on estimated recoverable oil and gas reserves. Dry hole costs are charged against income.

Undeveloped Leases—Leasehold costs of undeveloped oil and gas properties are capitalized, and that portion of the cost applicable to properties which it is estimated will be surrendered is amortized over the estimated holding period.

Property Dispositions—When complete units of depreciable property are retired or are sold for continued use, reserves are reduced by the applicable amounts and any profit or loss is credited or charged to income. When less than complete units of depreciable property are retired or disposed of the difference between asset cost and salvage value is charged or credited to the reserve for depreciation.

Maintenance and Repairs—Minor renewals and replacements are charged against income. Major renewals and replacements are charged to property accounts.

Research and Development Expenses—Research and development expenses are charged against income as incurred.

Investment Tax Credits—Investment tax credits are applied as a reduction of the provision for income taxes in the years used.

NOTE 2—INVESTMENTS

Refer to Note 1 for a change in accounting for certain investments. The most significant of these investments is 10,326,321 shares of the common stock of Pacific Petroleums Ltd. ("Pacific"), representing 48.57% of the total shares outstanding. These securities had a carrying value of $151,069,000 and a quoted market value of $320,116,000 at December 31, 1971, which does not purport to be realizable value. At the same date, net assets of Pacific in Canadian dollars amounted to $296,071,000, which consists of current assets $29,554,000, net property, plant and equipment $382,622,000, investments $22,971,000, other assets $3,657,000, current liabilities $23,947,000, and long-term debt $118,786,000. Earnings of Pacific for 1971 in Canadian dollars were $22,084,000, exclusive of deferred income taxes of $2,200,000 on depreciable assets.

NOTE 3—PROPERTIES, PLANTS, AND EQUIPMENT

The Company's investment in properties, plants, and equipment is summarized as follows:

	December 31	
	1971	1970
Production	$1,796,344,000	$1,749,487,000
Manufacturing	1,284,637,000	1,229,673,000
Transportation	276,106,000	279,742,000
Marketing	326,519,000	337,556,000
Other	95,888,000	96,369,000
	3,779,494,000	3,692,827,000
Less depreciation, depletion, and amortization	1,941,457,000	1,842,303,000
	$1,838,037,000	$1,850,524,000

NOTE 4—LONG-TERM DEBT

Long-term debt due after one year at December 31, 1971, consists of the following:

7⅝% Debentures Due 2001	$200,000,000
6% Guaranteed Sinking Fund Debentures Due 1981	20,808,000
5½% Guaranteed Swiss Bonds due 1983	13,838,000
First Mortgage and Leasehold 3% Sinking Fund Bonds due 1973-1975	1,440,000
Notes payable to banks, insurance companies, and others:	
At 4%-5%, due 1973-1987	110,489,000
At 5⅛%-6¼%, due 1973-1991	357,563,000
At 7%-9¾%, due 1973-1984	62,072,000
Purchase obligations	33,981,000
Total	$800,191,000

Arrangements existed at year end for a subsidiary to borrow an additional $30,307,000 to finance its portion of the development of a new oil field in the North Sea. Repayments of such loans would commence in June 1973 and continue through 1981.

NOTE 5—INCOME TAXES

The provision for income taxes includes an increase of $5,750,000 in 1971 and a decrease of $2,496,000 in 1970 for deferred income taxes, and reductions of $2,838,000 in 1971 and $1,910,000 in 1970 for investment tax credits.

NOTE 6—COMMON STOCK

The Company's restricted stock option plan was terminated December 31, 1963, except for the options then outstanding. Options to purchase 151,709 shares were outstanding to 403 key employees at January 1, 1971. During the year, options for 65,639 shares were exercised for an aggregate of $1,858,000 and options for 1,260 shares were cancelled. At December 31, 1971, options expiring in 1972 and 1973 were outstanding to 257 key employees to purchase 84,810 shares at an average price of $27.55. All of these options are exercisable.

At January 1, 1971, options for 52,760 shares of treasury stock were also outstanding to 11 individuals at an average price of $26.42 a share. These options, granted in connection with the acquisition of various corporations, became exercisable in cumulative installments beginning in 1964 and expire in 1972 and 1973. During 1971, options for 1,400 shares were exercised.

Capital in excess of par value of common stock was increased during 1971 by $3,936,000 resulting from the exercise of stock options and the sale or exchange of 610,673 shares of treasury stock.

NOTE 7—COMMITMENTS AND CONTINGENT LIABILITIES

At December 31, 1971, the Company had leases expiring more than three years from that date covering bulk and service stations, tank cars, office space, and other facilities. The minimum rentals payable under these leases for each of the next five years are estimated as follows: 1972—$48,600,000; 1973—$48,600,000; 1974—$48,600,000; 1975—$47,800,000; 1976—$46,600,000. Rental income from such stations subleased and mileage income on such leased tank cars are estimated at $25,100,000 for 1972 and are not expected to differ significantly through 1976.

At December 31, 1971, the Company was contingently liable for $127,336,000 of obligations of other companies. In addition, the Company has contingent liabilities with respect to claims and commitments arising from agreements with pipeline companies in which it holds stock interests whereby it may be required to provide such companies with additional funds through advances against future charges for transportation of crude oil or petroleum products. A number of suits are also pending in various courts in which the parent company or a subsidiary appears as plaintiff or defendant, including a federal anti-trust proceeding which seeks to force divestiture of the properties acquired from Tidewater Oil Company on July 14, 1966.

While it is impossible to estimate the ultimate liability in respect to contingent liabilities, the Company is of the opinion that the aggregate amount of such liabilities for which adequate provision has not been made is not significant in relation to total consolidated assets.

NOTE 8—RETIREMENT INCOME PLANS

The parent company and its subsidiaries have retirement plans covering substantially all of their employees. These plans are being funded based on pension costs accrued as determined by actuarial studies. Charges to income for such plans were $15,495,000 for 1971 and $13,121,000 for 1970.

During the year the principal retirement plan was revised to provide additional benefits, lower employee costs, and automatic participation on a noncontributory basis for employees after one year of recognized continuous service, with optional participation on a contributory basis. These changes will result in an estimated increase in annual Company contributions of $3,200,000.

NOTE 9—FOREIGN

The balance sheets include net assets applicable to operations in foreign countries in the approximate amounts of $532,298,000 for 1971 and $490,331,000 for 1970.

REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

The Board of Directors,
Phillips Petroleum Company:

We have examined the accompanying consolidated balance sheet of Phillips Petroleum Company at December 31, 1971 and the related consolidated statements of income and earnings employed in the business and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously reported on the financial statements for 1970 under date of February 4, 1971. The accompanying financial statements for that year have been revised as described in Note 1.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Phillips Petroleum Company at December 31, 1971 and 1970 and the consolidated results of their operations and the source and application of their consolidated funds for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period, after restatement of the prior year as explained in Note 1.

ARTHUR YOUNG & COMPANY

Tulsa, Oklahoma
February 15, 1972

TEN-YEAR FINANCIAL REVIEW (dollars in millions, except per share amounts)

CONSOLIDATED BALANCE SHEETS AT DECEMBER 31

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Assets										
Current assets:										
Cash and short-term investments	$ 225.1	137.1	187.4	135.4	147.1	176.2	93.9	89.7	113.4	87.2
Notes and accounts receivable, less reserves	382.8	410.6	392.3	388.3	351.5	303.2	219.4	192.6	183.2	171.8
Inventories:										
Crude oil and petroleum products	240.5	212.6	217.6	220.3	203.9	191.1	134.1	130.4	127.7	112.8
Merchandise	18.7	21.9	24.1	21.5	24.3	27.1	17.9	14.5	12.8	11.0
Materials and supplies	36.1	35.7	31.2	29.6	30.8	31.5	25.5	22.0	23.2	22.5
Total current assets	903.2	817.9	852.6	795.1	757.6	729.1	490.8	449.2	460.3	405.3
Investments and long-term receivables, less reserves	391.8	361.6	383.5	332.1	317.8	311.7	309.3	278.5	247.2	230.1
Properties, plants, and equipment, less reserves	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9	1,208.7	1,131.1	1,084.6	1,084.5
Prepaid and deferred charges	33.7	41.5	39.9	36.4	29.6	32.4	20.3	16.4	14.2	15.4
Total assets	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1	2,029.1	1,875.2	1,806.3	1,735.3
Liabilities and stockholders' equity										
Current liabilities:										
Notes payable	$ 17.3	32.4	21.4	27.1	45.6	56.5	—	—	—	—
Accounts payable	237.2	247.9	229.7	239.7	220.2	197.3	160.3	134.6	125.1	117.1
Long-term debt—due within one year	52.2	106.1	75.9	47.1	49.9	180.9	3.5	16.9	32.1	17.0
Accrued taxes	102.5	114.5	119.7	87.5	86.3	102.5	59.0	53.8	67.1	50.4
Other accruals	36.1	28.9	27.9	27.5	27.7	34.6	20.8	19.5	17.1	16.2
Total current liabilities	445.3	529.8	474.6	428.9	429.7	571.8	243.6	224.8	241.4	200.7
Long-term debt	800.2	687.9	787.4	655.2	690.0	660.3	333.7	260.6	201.5	223.0
Deferred income taxes	63.0	57.3	59.7	68.4	70.9	62.8	86.8	81.5	73.0	60.6
Other deferred credits	41.8	36.3	51.7	63.5	61.2	46.7	45.6	43.9	32.1	30.6
Reserve for contingencies	60.7	57.4	50.5	45.2	27.6	29.9	24.2	22.2	19.8	15.1
Minority interest in consolidated subsidiaries	6.5	9.9	21.1	15.6	15.9	11.9	—	—	—	—
Stockholders' equity:										
Common stock, $2.50 par value	190.5	190.3	190.3	189.7	179.6	173.2	172.3	172.0	172.0	172.0
Capital in excess of par value of common stock	437.2	433.3	433.3	427.4	329.2	271.9	264.2	261.6	261.0	288.1
Earnings employed in the business	1,160.9	1,125.4	1,110.4	1,076.5	1,067.9	961.1	918.2	859.0	811.8	747.3
	1,788.6	1,749.0	1,734.0	1,693.6	1,576.7	1,406.2	1,354.7	1,292.6	1,244.8	1,207.4
Less treasury stock	39.4	56.1	56.6	56.9	57.3	58.5	59.5	50.4	6.3	2.1
Total stockholders' equity	1,749.2	1,692.9	1,677.4	1,636.7	1,519.4	1,347.7	1,295.2	1,242.2	1,238.5	1,205.3
Total liabilities and stockholders' equity	3,166.7	3,071.5	3,122.4	2,913.5	2,814.7	2,731.1	2,029.1	1,875.2	1,806.3	1,735.3
Stockholders' equity per share*	$ 23.40	22.86	22.66	22.18	21.79	20.08	19.41	18.56	18.07	17.55

CONSOLIDATED STATEMENTS OF PROPERTIES, PLANTS, AND EQUIPMENT

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Gross investment										
Production	$1,796.4	1,749.5	1,729.6	1,587.8	1,495.9	1,460.6	1,390.7	1,342.8	1,279.7	1,257.4
Manufacturing	1,284.6	1,229.7	1,165.1	1,112.8	1,065.2	967.6	669.9	629.5	592.1	515.5
Transportation	276.1	279.7	278.6	276.1	271.6	272.2	195.3	191.5	178.0	164.1
Marketing	326.5	337.5	329.7	323.4	346.9	347.7	188.4	168.6	167.5	147.7
Other	95.9	96.4	93.1	93.4	88.4	97.2	79.8	76.6	71.8	92.3
	3,779.5	3,692.8	3,596.1	3,393.5	3,268.0	3,145.3	2,524.1	2,409.0	2,289.1	2,177.0
Net investment										
Production	$ 756.7	743.2	745.5	651.3	598.4	593.3	600.8	557.5	529.7	564.5
Manufacturing	684.8	682.9	668.9	660.2	644.0	567.9	323.7	304.4	292.9	273.6
Transportation	125.6	135.2	142.8	146.9	150.9	161.2	101.5	103.5	96.0	87.8
Marketing	221.2	237.5	237.8	238.0	265.6	274.4	137.0	122.2	125.5	108.2
Other	49.7	51.7	51.4	53.5	50.8	61.1	45.7	43.5	40.5	50.4
	1,838.0	1,850.5	1,846.4	1,749.9	1,709.7	1,657.9	1,208.7	1,131.1	1,084.6	1,084.5

*Adjusted for two-for-one stock split in 1969.

Note—Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption of equity accounting for investments (see Note 1 to financial statements).

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
CONSOLIDATED STATEMENTS OF INCOME										
Gross operating revenues:										
Petroleum products	$1,188.2	1,146.2	1,067.8	1,044.2	999.0	868.7	682.3	639.5	640.8	625.4
Chemicals, fibers, and fabricated products	495.0	477.2	472.7	446.6	398.2	357.2	306.7	271.2	267.4	201.5
Crude oil	320.8	293.2	338.0	304.4	276.9	253.8	213.3	188.2	198.7	177.8
Natural gas (including helium)	169.3	165.2	137.8	133.8	137.5	129.9	122.3	119.9	114.2	105.2
Other sales and services	189.9	191.3	185.7	177.9	170.0	150.7	126.1	122.7	114.0	134.7
Total gross operating revenues	2,363.2	2,273.1	2,202.0	2,106.9	1,981.6	1,760.3	1,450.7	1,341.5	1,335.1	1,244.6
Other revenues (including equity in earnings of non-consolidated companies)	49.1	38.2	30.0	20.3	31.7	24.1	14.0	11.3	21.5	16.4
Total revenues	2,412.3	2,311.3	2,232.0	2,127.2	2,013.3	1,784.4	1,464.7	1,352.8	1,356.6	1,261.0
Cost of sales and services	1,615.3	1,541.2	1,486.7	1,410.4	1,276.1	1,124.6	942.3	878.0	862.1	801.1
Selling, general, and administrative expense	288.3	288.0	270.5	267.9	245.9	223.8	166.9	154.4	152.8	132.6
Depreciation, depletion, amortization, and retirements	201.3	198.4	195.1	187.0	170.1	158.1	140.9	125.8	132.8	129.4
Taxes other than income taxes	59.7	57.6	53.8	51.8	49.3	42.3	33.7	31.7	32.1	29.1
Interest and expense on indebtedness	62.6	54.2	49.6	40.5	43.0	32.0	15.0	10.7	10.6	10.4
Provision for income taxes	52.8	52.0	46.2	42.7	64.4	65.2	38.2	37.2	58.1	51.4
Total costs and expenses	2,280.0	2,191.4	2,101.9	2,000.3	1,848.8	1,646.0	1,337.0	1,237.8	1,248.5	1,154.0
Income before extraordinary items	132.3	119.9	130.1	126.9	164.5	138.4	127.7	115.0	108.1	107.0
Extraordinary items	—	(8.7)	—	6.9	—	7.1	—	—	8.4	—
Net income	132.3	111.2	130.1	133.8	164.5	145.5	127.7	115.0	116.5	107.0
Per average share outstanding:*										
Income before extraordinary items	$ 1.78	1.62	1.76	1.74	2.38	2.07	1.91	1.73	1.58	1.56
Net income	$ 1.78	1.50	1.76	1.83	2.38	2.18	1.91	1.73	1.71	1.56
Dividends per share*	$ 1.30	1.30	1.30	1.27½	1.17½	1.10	1.02½	1.00	.99	.92½
Percent of total revenues from outside U. S.	17.4	13.4	12.2	11.1	9.3	8.9	9.0	7.1	6.7	6.8

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Source										
Income before extraordinary items	$ 132.3	119.9	130.1	126.9	164.5	138.4	127.7	115.0	108.1	107.0
Depreciation, depletion, amortization, and retirements	201.3	198.4	195.1	187.0	170.1	158.1	140.9	125.8	132.8	129.4
Deferred income taxes	5.7	(2.5)	(8.7)	6.6	2.5	(1.4)	5.4	8.5	11.8	12.9
Other (including equity in undistributed earnings of non-consolidated companies)	(6.6)	.8	.9	(3.0)	2.4	8.7	7.3	2.3	5.2	4.3
Funds from operations	332.7	316.6	317.4	317.5	339.5	303.8	281.3	251.6	257.9	253.6
Long-term debt	257.0	10.0	210.9	152.0	136.1	432.0	77.6	59.6	.4	.8
Property sales and retirements (including extraordinary items)	43.7	31.1	27.1	47.9	55.3	14.7	8.0	7.9	23.8	24.4
Sales of investments (including extraordinary items)	14.3	23.1	5.3	32.9	19.7	19.6	4.9	18.9	93.8	2.4
Capital stock	20.8	.5	6.8	108.7	64.9	9.6	(6.2)	(43.5)	(6.0)	(1.8)
Other	6.5	2.8	11.8	8.0	22.2	.7	1.6	11.9	2.0	.2
	675.0	384.1	579.3	667.0	637.7	780.4	367.2	306.4	371.9	279.6
Application										
Capital expenditures:										
Production	$ 143.3	132.3	207.3	171.6	117.5	136.0	144.8	109.4	80.7	100.3
Manufacturing	58.3	74.5	77.8	85.0	136.3	230.9	50.5	44.8	25.5	17.5
Transportation	7.8	6.2	6.5	8.5	1.3	68.6	5.3	14.4	13.8	7.7
Marketing	11.3	20.7	21.8	17.4	19.1	125.6	26.3	20.9	27.6	26.5
Other	4.3	5.7	3.2	6.7	5.6	18.6	5.5	5.5	8.9	4.3
Total capital expenditures	225.0	239.4	316.6	289.2	279.8	579.7	232.4	195.0	156.5	156.3
Investments and long-term receivables	37.7	15.5	60.5	46.1	(4.6)	47.6	34.5	34.9	76.7	52.9
Reduction in long-term debt	144.7	109.5	78.8	186.8	106.4	185.8	4.5	.6	30.4	20.7
Cash dividends	96.8	96.3	96.2	92.7	81.1	73.5	68.6	67.8	68.9	63.6
Increase (decrease) in working capital	169.7	(89.9)	11.8	38.3	170.6	(122.3)	22.8	5.5	37.6	(15.2)
Other	1.1	13.3	15.4	13.9	4.4	16.1	4.4	2.6	1.8	1.3
	675.0	384.1	579.3	667.0	637.7	780.4	367.2	306.4	371.9	279.6

*Adjusted for two-for-one stock split in 1969.

Note—Financial data for 1970, 1969, 1968 and 1967 have been restated to reflect the adoption of equity accounting for investments (see Note 1 to financial statements).

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
REVENUES FROM CHEMICALS, FIBERS, AND FABRICATED PRODUCTS										
Plastic feedstocks and resins	$ 76.8	84.4	85.3	72.9	61.5	56.7	45.7	37.1	40.2	45.5
Rubber chemicals	84.7	73.9	71.4	71.1	60.0	62.9	59.0	58.9	58.1	68.7
Fertilizers	90.9	71.8	69.3	67.5	74.1	82.6	59.7	50.2	43.0	42.4
Fabricated products	89.3	96.3	97.1	104.9	105.8	90.5	85.7	76.5	81.7	—
Synthetic fibers	70.2	57.6	59.3	50.1	31.8	7.0	—	—	—	—
Other products	83.1	93.2	90.3	80.1	65.0	57.5	56.6	48.5	44.4	44.9
	495.0	477.2	472.7	446.6	398.2	357.2	306.7	271.2	267.4	201.5

OTHER DATA	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Shares outstanding at year end—thousands*	74,741	74,062	74,041	73,776	69,717	67,118	66,739	66,929	68,551	68,695
Number of stockholders at year end	166,012	172,979	157,052	145,665	139,670	139,224	137,739	137,589	130,324	128,882
Total payroll including employee benefits	$ 352.8	335.0	326.8	328.9	312.3	281.8	248.9	237.6	233.9	119.6
Number of employees at year end	33,280	32,208	32,660	35,359	35,724	34,667	29,873	28,298	27,816	25,648

*Adjusted for two-for-one stock split in 1969.

TEN-YEAR OPERATING REVIEW

NET PRODUCTION OF LIQUID RAW MATERIALS—thousands of barrels daily

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
Crude Oil										
United States										
Texas	54.9	54.6	51.8	53.7	54.4	52.8	51.5	52.6	54.4	53.7
Louisiana	24.8	29.6	28.1	29.3	28.3	24.9	18.7	14.7	12.4	10.4
Oklahoma	15.6	15.5	16.2	17.7	20.0	22.4	23.7	23.9	23.3	23.1
New Mexico	9.8	10.4	10.3	10.3	10.1	10.3	9.2	8.8	7.8	7.2
Alaska	5.5	5.6	6.9	8.9	3.9	.2	—	—	—	—
Wyoming	3.7	6.3	6.2	3.6	3.3	2.6	2.3	2.2	2.3	2.4
Utah	3.0	3.3	3.4	4.0	3.1	1.8	1.5	1.9	3.3	3.6
Other states	12.8	13.6	14.7	12.4	11.7	12.9	13.4	14.0	14.6	14.2
	130.1	138.9	137.6	139.9	134.8	127.9	120.3	118.1	118.1	114.6
Outside United States										
Canada	13.1	12.2	10.4	9.7	9.0	8.3	7.9	8.0	7.7	5.6
Latin America	20.2	21.3	22.0	26.4	34.0	36.1	34.8	30.6	33.7	34.3
Middle East	14.0	34.4	35.3	32.0	33.0	37.2	39.7	40.3	38.4	36.3
Africa	25.5	20.0	40.0	30.1	25.4	23.1	5.6	1.1	—	—
Europe	2.3	—	—	—	—	—	—	—	—	—
	75.1	87.9	107.7	98.2	101.4	104.7	88.0	80.0	79.8	76.2
Total crude oil	205.2	226.8	245.3	238.1	236.2	232.6	208.3	198.1	197.9	190.8
Natural Gas Liquids										
United States	135.4	131.8	130.3	138.7	132.1	125.2	121.4	114.2	112.0	106.3
Canada	12.8	12.9	11.2	8.9	8.9	8.4	8.0	3.9	.3	.2
Latin America	2.6	2.2	1.1	1.2	1.2	1.2	1.4	1.4	1.5	1.6
Europe	.2	.2	—	—	—	—	—	—	—	—
Total natural gas liquids	151.0	147.1	142.6	148.8	142.2	134.8	130.8	119.5	113.8	108.1
Total all liquids	356.2	373.9	387.9	386.9	378.4	367.4	339.1	317.6	311.7	298.9

Note—Operating data for 1967 through 1971 includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 includes the Company's interest in such companies owned one-third or more.

	1971	1970	1969	1968	1967	1966	1965	1964	1963	1962
NET NATURAL GAS PRODUCTION— millions of cubic feet daily										
United States	1,566	1,591	1,436	1,429	1,460	1,397	1,330	1,336	1,329	1,322
Canada	179	179	155	127	116	96	87	79	69	67
Latin America	41	48	33	—	—	—	—	—	—	—
Europe	58	40	14	4	4	5	—	—	—	—
	1,844	1,858	1,638	1,560	1,580	1,498	1,417	1,415	1,398	1,389
WELL COMPLETIONS—Net										
United States—Exploratory	21	25	24	24	17	14	40	41	49	39
—Development	70	67	118	98	80	116	202	261	252	226
Outside United States—Exploratory	30	30	26	32	20	30	22	18	20	20
—Development	39	14	19	27	28	63	51	32	28	46
	160	136	187	181	145	223	315	352	349	331
OIL AND GAS WELLS—Net										
United States—Oil	6,004	6,316	6,457	6,387	6,590	6,808	6,873	6,879	6,790	6,630
—Gas and condensate	1,936	1,964	1,997	1,961	1,953	1,946	1,921	1,882	1,821	1,807
Outside United States—All wells	850	829	974	955	1,061	1,033	837	838	823	687
	8,790	9,109	9,428	9,303	9,604	9,787	9,631	9,599	9,434	9,124
NET OIL AND GAS ACREAGE—thousands of acres										
United States	5,382	5,275	4,728	4,618	4,333	4,666	4,995	5,030	5,050	5,330
Canada	6,507	6,273	5,862	4,600	3,563	3,476	2,808	2,349	2,150	1,611
Latin America	696	3,186	4,895	5,008	1,910	2,259	1,934	1,502	1,908	2,119
Europe	1,227	1,424	1,394	1,375	1,238	1,234	1,231	355	1,510	1,510
Africa	8,403	9,009	13,860	16,999	18,398	20,739	18,797	18,109	19,314	8,932
Middle East	13,852	13,852	12,762	12,787	2,102	638	638	311	311	311
Southeast Asia	38,852	47,106	57,627	40,000	—	—	—	—	—	—
Australia	6,272	7,290	9,290	10,833	16,978	26,690	24,383	19,164	22,600	29,480
	81,191	93,415	110,418	96,220	48,522	59,702	54,786	46,820	52,843	49,293
REFINERY RUNS—thousands of barrels daily										
United States—Crude oil	371	364	359	356	335	292	249	248	241	238
—Natural gas liquids	157	162	158	159	162	159	156	156	148	142
Outside United States—All liquids	77	93	88	87	68	58	38	32	30	26
	605	619	605	602	565	509	443	436	419	406
REFINERY CAPACITY—thousands of barrels daily										
United States—Crude oil	398	398	390	390	410	410	289	289	289	289
—Natural gas liquids	165	165	165	165	165	165	160	160	160	160
Outside United States—All liquids	100	100	148	147	97	119	56	46	44	44
	663	663	703	702	672	694	505	495	493	493
PETROLEUM PRODUCTS SOLD—thousands of barrels daily										
United States										
Automotive gasoline	311	314	294	279	252	222	188	183	175	175
Aviation fuels	27	35	38	36	36	25	21	25	29	32
Distillates—including kerosene	98	106	109	120	111	97	92	88	92	92
Liquefied petroleum gases	106	114	107	106	124	135	126	120	122	116
Other products	41	47	48	44	43	38	30	31	26	23
	583	616	596	585	566	517	457	447	444	438
Outside United States	141	131	132	114	83	65	41	37	27	26
Total	724	747	728	699	649	582	498	484	471	464
MARKETING OUTLETS	24,562	25,536	25,914	26,155	26,513	27,240	23,677	23,520	23,662	23,569

Note—Operating data for 1967 through 1971 includes operating results, in proportion to the Company's stock interests, of non-consolidated companies owned 20% or more. Data prior to 1967 includes the Company's interest in such companies owned one-third or more.

PRINCIPAL SUBSIDIARIES AND AFFILIATES

include the following:

FIBERS INTERNATIONAL CORPORATION

PACIFIC PETROLEUMS LTD.

PETROCHIM

PHILLIPS FIBERS CORPORATION

PHILLIPS PIPE LINE COMPANY

PHILLIPS PUERTO RICO CORE INC.

PHILTANKERS, INC.

PHILLIPS PETROLEUM COMPANY EUROPE-AFRICA

OFFICES

PRINCIPAL OFFICES

Bartlesville, Oklahoma 74004

80 Broadway, New York, New York 10005

306 South State Street, Dover, Delaware 19901

STOCK TRANSFER OFFICES

Phillips Petroleum Company
80 Broadway, New York, New York 10005

Phillips Petroleum Company
15 Exchange Place
Jersey City, New Jersey 07302

Montreal Trust Company
15 King Street West
Toronto 1, Ontario, Canada

REGISTRARS

Manufacturers Hanover Trust Company
40 Wall Street
New York, New York 10005

Canada Permanent Trust Company
1901 Yonge Street
Toronto 7, Ontario, Canada

ANNUAL STOCKHOLDERS MEETING

The 1972 Annual Meeting of Stockholders will be held Tuesday, April 25, at 10 a.m., in the Adams Building at the Company's Bartlesville, Oklahoma, headquarters. Proxies for this meeting will be requested when the official Notice, Proxy Statement, and Proxy form are mailed to stockholders about March 27, 1972.

DIRECTORS

Clark M. Clifford, senior partner in law firm of Clifford, Warnke, Glass, McIlwain & Finney, Washington, D. C.

Wm. C. Douce,* Executive Vice President and Chairman of the Executive Committee

W. C. Hewitt,* Executive Vice President and Chairman of the Planning and Budget Committee

John M. Houchin,* Deputy Chairman of the Board of Directors and deputy chief executive officer

W. W. Keeler,* Chairman of the Board of Directors and chief executive officer

C. M. Kittrell,* Senior Vice President

W. F. Martin,* President

A. F. Mayne, President of A. F. Mayne & Associates Limited, financial and business consultants, Montreal, Quebec, Canada

Lloyd G. Minter,* Vice President and General Counsel

William Piel, Jr., partner in law firm of Sullivan & Cromwell, New York, New York

W. A. Roberts,* Executive Vice President

Robert N. Sears, Vice President and Assistant Secretary

William I. Spencer, President and chief administrative officer of First National City Corporation, a financial institution, New York, New York

W. Clarke Wescoe, Executive Vice President and Director of Sterling Drug Inc., New York, New York

*Member Executive Committee

OFFICERS

W. W. Keeler, Chairman of the Board of Directors and chief executive officer

John M. Houchin, Deputy Chairman of the Board of Directors and deputy chief executive officer

W. F. Martin, President

W. C. Hewitt, Executive Vice President and Chairman of the Planning and Budget Committee

Wm. C. Douce, Executive Vice President and Chairman of the Executive Committee

W. A. Roberts, Executive Vice President

C. M. Kittrell, Senior Vice President

Lloyd G. Minter, Vice President and General Counsel

Robert N. Sears, Vice President and Assistant Secretary

O. W. Armstrong, Vice President and Treasurer

P. M. Arnold, Vice President Research and Development

Geo. F. L. Bishop, Vice President Manufacturing

H. D. Brookby, Vice President and Chairman of the Operating Committee

LeRoy Culbertson, Vice President Gas and Gas Liquids

John E. Harris, Jr., Vice President Supply and Transportation

L. H. Johnstone, Vice President Chemical

G. J. Morrison, Vice President Marketing

K. W. Rugh, Vice President Advertising and Public Relations

Carstens Slack, Vice President Washington Office

Jack Tarner, Vice President Exploration and Production

W. R. Thomas, Vice President Employee Relations

H. D. Trotter, Vice President Engineering

Edwin Van den Bark, Vice President International

Harvey W. Thompson, Secretary

H. B. Stead, Comptroller

Kenneth Heady, Associate General Counsel

W. G. Angel, Secretary of the Executive Committee

Glenn A. Cox, Senior Assistant Treasurer

J. L. Adams, Assistant Treasurer

R. E. Bonnell, Assistant Treasurer

M. E. Kissell, Assistant Treasurer

E. J. Brown, Assistant Secretary

Lee W. Stone, Assistant Secretary

Joe W. Zeman, Assistant Secretary

J. R. Akright, Assistant Comptroller

T. C. Heritage, Assistant Comptroller

H. D. Powell, Assistant Comptroller

J. H. Simmons, Assistant Comptroller

OTHER EXECUTIVES

M. L. Collins, Manager Tax, Insurance, and Claims

Kieffer Davis, M.D., Medical Director

J. W. Davison, Vice Chairman of the Operating Committee

M. R. Hayes, Manager General Services

D. R. Hynes, Manager Purchasing

Myron O. Johnson, Manager Computing

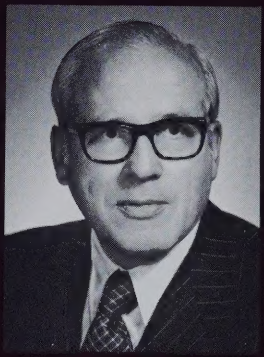
W. R. Lusbey, Manager Aviation

W. L. Phillips, Manager International

DIRECTORS

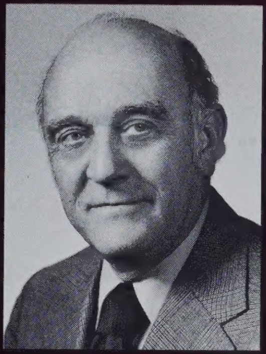

W. W. KEELER

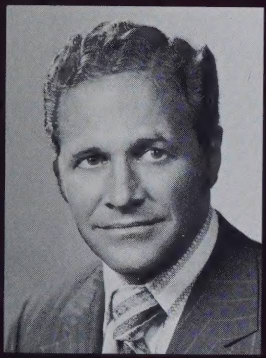

JOHN M. HOUCHIN

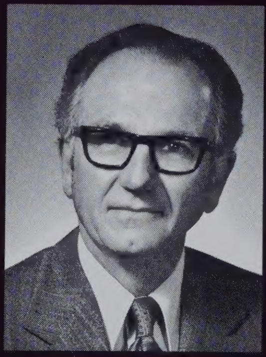

W. F. MARTIN

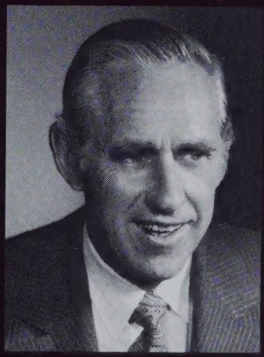

W. C. HEWITT

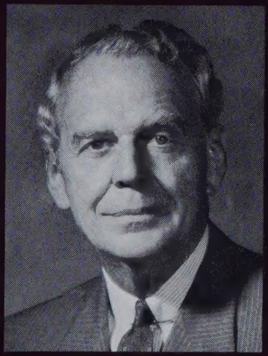

WM. C. DOUCE

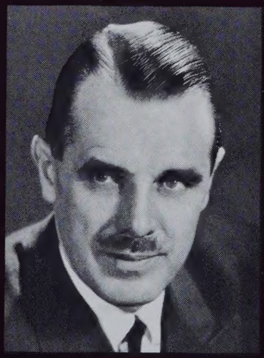

W. A. ROBERTS


C. M. KITTRELL


LLOYD G. MINTER


ROBERT N. SEARS


CLARK M. CLIFFORD


A. F. MAYNE


WILLIAM PIEL, JR.


WILLIAM I. SPENCER


W. CLARKE WESCOE

PHILLIPS PETROLEUM COMPANY
BARTLESVILLE, OKLAHOMA 74004

LITHO IN U.S.A.